



ARIZONA STATE RETIREMENT SYSTEM

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Paul Matson
Director

SUMMARY OF THE PUBLIC MEETING OF THE ARIZONA STATE RETIREMENT SYSTEM INVESTMENT COMMITTEE

HELD ON

Monday, April 22, 2013

2:30 p.m.

The Arizona State Retirement System (ASRS) Investment Committee (IC) met at 3300 N. Central Avenue, 14th Floor, Phoenix, AZ 85012. Mr. Tom Connelly, Chair of the IC, called the meeting to order at 2:30 p.m.

1. Call to Order; Roll Call; Opening Remarks

Present: Mr. Tom Connelly, Chair
Prof. Dennis Hoffman, Vice-Chair (arrived at 2:35 p.m.)
Mr. Mike Smarik

Absent: None.

A quorum was present for the purpose of conducting business.

Mr. Tom Connelly acknowledged the presence of recent Board appointee, Dr. Richard Jacob. Dr. Jacob provided his introduction to the IC Committee and expressed appreciation to be in attendance as an observer of the Committee.

2. Approval of Minutes of the February 20, 2013 Investment Committee Meeting

Motion: Mr. Mike Smarik moved to approve the minutes of the February 20, 2013 Investment Committee meeting. Mr. Connelly seconded the motion.

By a vote of 2 in favor, 0 opposed, 0 abstentions, 1 excused, the motion was approved.

Professor Dennis Hoffman arrived to the meeting at 2:35 p.m. during the following agenda item.

3. Presentation, Discussion, and Appropriate Action Regarding Investment Program Updates

Mr. Gary Dokes, CIO, provided an overview of the agenda item. Mr. Dokes gave an introduction of the new formatting and explained the purpose of the updates as they relate to the Asset Class Committees, tactical portfolio positioning, strategic asset allocation implementation, IMD belief systems, IMD House Views, the weighting of each asset class and IMD projects, activities and research initiatives.

Mr. Connelly requested additional information on the Hunter vs. Hunted concept. Mr. Karl Polen, Head of Private Markets, stated the ASRS has converted to 100% outbound vs. inbound in Real Estate regarding the sourcing of real estate opportunities and is in the process of converting to being outbound in Private Equity.

Mr. Kien Trinh, State Street Investment Analytics, presented the State Street report; discussing the monthly reallocation summary, month-end risk profile, total plan overview on exposure. Mr. Trinh addressed the updates requested from the February 20, 2013 Investment Committee.

Mr. Connelly inquired about the Market Cap and the over and underweight to policy percentages. Mr. Trinh indicated the information excludes cash and non-traded securities.

Mr. Connelly also inquired as to why the benchmarking selection does not parallel the weighting of the benchmark. Mr. Dave Underwood, Assistant Chief Investment Officer, spoke of the methodology on how GTAA is expressed in the values and are included in the larger capitalization category.

Mr. Dokes presented the Securities Lending Risk Metrics.

Mr. Connelly addressed the fellow Trustees as it relates to their role in ensuring there are no actionable discrepancies between policy and the IMD reporting. Mr. Connelly provided an overview of the sections within the report and encouraged the Committee to ask questions.

4. Presentation, Discussion, and Appropriate Action Regarding Independent Reporting, Monitoring and Oversight of the ASRS Investment Program

Mr. Allan Martin, NEPC Consultant, provided background information and the objective of the NEPC independent reports as they relate to: ASRS SAAP compliance, Asset Class Committee minutes review, investment selection due diligence, NEPC perspectives on the market, environment and investment outlooks.

Mr. Martin noted ASRS' relatively high equity exposures which could create volatility risks.

Mr. Connelly asked about the rebalancing policy as it relates to the overweight to policy in the Equity asset class. Mr. Underwood and Mr. Dokes jointly responded that equities may remain at or just outside the policy band given recent further market appreciation or until private market investment commitments are funded. Mr. Dokes noted that other public market investments such as Core Bond or High Yield offer less attractive return potential vs. equities.

Professor Dennis Hoffman expressed interest in NEPC's position regarding a recommended amount of ASRS equity exposure. NEPC's position as expressed by Mr. Martin is to have a lower exposure in equities. Mr. Martin indicated that the ASRS has gradually lowered its equity exposure, but admitted the difficulty lies in finding other investments that offer better long-term return potential.

5. Presentation, Discussion, and Appropriate Action Regarding Total Equities Asset Class Presentation

Mr. Underwood, along with, Mr. Keith Guido and Mr. John Doran, Assistant Portfolio Managers, provided a comprehensive review of the U.S. Equity and Non-U.S. (International) Equity Asset Classes, respectively.

Manager performance was discussed within the U.S. and Non-U.S. Equity asset classes. Mr. Connelly questioned Mr. Martin as it relates to the standard academic literature for performance calculations, rather than a single index benchmark, what would be a better way to look at value generation. Mr. Martin believes there is value to be gained by looking beyond performance versus a standard index. Mr. Underwood provided insight into the new Barra One system which will allow for a more dynamic approach to measuring performance, and which lends to measuring factor characteristics and how the ASRS can manage risk more effectively.

Mr. Connelly queried the Committee as it relates to additional manager information, and the selection of managers. Mr. Guido offered insight into an IMD project in which they have approached an outside resource to conduct an analysis of the current IMD Standard Investment Policy 006 (SIP006) which outlines the Investment Manager, Partner, and Co-investment Selection and Oversight process. Mr. Martin commented favorably to IMD's approach to the analysis of the SIP006.

Mr. Polen and Ms. Kerry White, Private Markets Asset Manager, provided a concise overview and live on-line demonstration of the Private Equity Program. Included in the presentation was a summary on the following: The Private Equity Team, Investment Strategy, Manager Selection, Performance Calculations, Internal Systems, and Portfolio Analysis.

All IC Trustees commented favorably on the presentations.

6. Presentation, Discussion, and Appropriate Action Regarding Equity Risk Factors ETFs Paradigm

Mr. Underwood provided a detailed explanation of the implementation and application of the Equity Risk Factor ETF Program. Mr. Underwood expounded upon the significant research related to the academic work of identifying the equity risk factor, as well as the utilization of professional collaboration with three strategic partners. To add clarity to the discussion, Mr. Underwood also commented on the terminology used by Barra as it related to certain risk factors.

Mr. Underwood also provided a summary of how the strategy would be implemented into the Asset Allocation and commented on how they would prevent the ETF program from offsetting tactical bets from the managers. Additionally, Mr. Underwood commented on the mainstream press as it relates to the investment of specific ETF shares.

Mr. Martin believes the program has very strong potential to add alpha to the portfolio.

Mr. Dokes provided his appreciation to the IMD staff for their work both on the Equity Risk Factor ETF program and in the area of Private Markets.

7. Presentation, Discussion, and Appropriate Action Regarding Recommended Changes to the ASRS Allocation Policy (SAAP) Schematic

Mr. Dokes provided background information relating to the current SAAP and the changes for approval. Changes include the insertions of relative benchmarks for new SAAP asset classes, and changing the passive policy percentage of Fixed Income to apply to only Core Bond rather than to Total U.S. Fixed Income.

Motion: Professor Hoffman moved that the IC recommend to the Board the approval of proposed changes to the ASRS Asset Allocation Policy Schematic as denoted in Exhibit A. Mr. Smarik seconded the motion

By a vote of 3 in favor, 0 opposed, 0 abstentions, 0 excused, the motion was approved.

8. Requests for Future Agenda Items

Mr. Dokes detailed agenda items of the June Investment Committee, additionally; Mr. Dokes plans to communicate to the IC Committee to determine points of discussion for an IC/IMD Investment Roundtable to occur in late Q3 or Q4-13.

9. Call to the Public

No members of the public requested to speak.

10. Adjournment

The meeting adjourned at 5:24 p.m.

Respectfully submitted,

Chasity Byrd
Investment Committee Secretary

Date

Gary Dokes
Chief Investment Officer

Date